Labor and Employment Alert: Never Mind: IRS Backtracks on $50 Reduction of 2018 HSA Contribution Limit

Related Attorneys

Jennifer Bibart Dunsizer

Christine M. Poth

Dawne McKenna Parrish

Related Services

Employee Benefits and Executive Compensation

Labor and Employment

CLIENT ALERT | 4.30.2018

Less than two months after announcing a $50 reduction in the 2018 limit on HSA contributions for employees with family high deductible health plan coverage, the IRS backtracked and reinstated the original limit. The $50 reduction, announced March 2, 2018, was prompted by the Tax Cuts and Jobs Act which mandates a new method of calculating cost of living increases. Employer groups pointed out the difficulty of reprogramming systems after the start of the year and the IRS relented.

If you have already programmed your system for the reduced limit ($6,850), you may – but are not required to – program again for the restored limit ($6,900). An employee who wants to contribute the additional $50 could of course make a separate after-tax contribution to his or her HSA (i.e., not through payroll) and then take a deduction for the HSA contribution on his or her income taxes.

An individual who had already contributed between $6,850 and $6,900 to his or her HSA in 2018 and then withdrew the excess based on the March IRS guidance has some options. He or she may redeposit the withdrawn funds by April 15, 2019. If not redeposited, the treatment depends on whether the contributions were made pre-tax (though payroll) or after-tax. If the contributions were made on a pre-tax basis, the withdrawn funds would be taxed and subject to a 20% excise tax, unless used for medical expenses. If the contributions were made on an after-tax basis, the withdrawal would not be taxed and the 20% excise tax would not apply.